

Medical peer review board. A nonprofit organization formed by members of a State medical association to operate peer review boards for the primary purpose of establishing and maintaining standards for quality, quantity, and reasonableness of costs of medical services qualifies for exemption from tax under section 501(c)(6) of the Code but not under section 501(c)(3).

Advice has been requested whether the nonprofit organization described below qualifies for exemption from Federal income tax under section 501(c)(3) or 501(c)(6) of the Internal Revenue Code of 1954.

The organization was formed by members of a State medical association and is governed by a board of directors made up of the officers of the State medical association. Nonvoting membership is available to any member of the medical profession.

The organization's purposes are to promote the delivery of health care at fees reasonable to both patient and physician; to preserve freedom of choice in the doctor-patient relationship; to cooperate with prepaid medical plans, State and local governments, and other interested parties to promote the delivery of health care at reasonable fees; and to promote the betterment of the medical profession.

The organization was set up in response to concern on the part of the members of the medical profession in the State, the public, governmental agencies, and insurance carriers as to the costs of medical care, including prepaid health care systems.

The principal activity of the organization is the operation of a system of 'peer review boards' throughout the State. These boards review cases submitted to them by patients, insurance carriers, government agencies, and physicians involving questions such as the appropriateness of a particular medical procedure, the proper utilization of medical facilities, and other questions relating to the costs and quality of medical care. While the organization works with insurance companies, it neither designs, sponsors, or operates prepaid health insurance programs, nor sets minimum standards which must be included in an insurance benefits package.

The boards are staffed by members of the medical profession. A central coordinating committee oversees the operation of the boards. A 'judicial committee' recommends action to appropriate authorities in cases involving questions of ethics, fraud, or illegitimate practices.

The decisions of the boards in matters involving disputed fees are not binding on the parties; however, they ordinarily are the basis for resolution of the matter by agreement.

Information gathered from the peer review operation is utilized to identify abuses; to devise criteria for measuring quality, quantity, and reasonableness of cost of medical care; and to educate persons involved in the health care delivery system on what is reasonable in cost and appropriate in service.

The organization's income is derived from contributions from the State medical association and insurance carriers. Its disbursements are for operating expenses.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of business leagues not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable purposes.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as an association of persons having a common business interest, the purpose of which is to promote such common interest.

Section 1.501(c)(3)-1(d)(1)(ii) of the regulations provides that an organization is not organized or operated exclusively for charitable purposes unless it serves a public rather than a private interest.

In construing the meaning of the phrase 'exclusively for educational purposes' in *Better Business Bureau v. U.S.*, 326 U.S. 279 (1945), Ct. D. 1650, 1945 C.B. 375, the Supreme Court of the United States said, 'This plainly means that the presence of a single noneducational purpose, if substantial in nature, will destroy the exemption regardless of the number or importance of truly educational purposes.' This rationale applies equally to any category of charitable purpose under section 501(c)(3) of the Code.

The organization's principal activity is directed to establishing and maintaining standards for the quality and costs of medical services. Although this activity may result in a measurable public benefit, its primary objective is to maintain the professional standards, prestige, and independence of the organized medical profession and thereby furthers the common business interest of the organization's members. See Rev. Rul. 73-567, 1973-2 C.B. 178; Rev. Rul. 71-504, 1971-2 C.B. 231.

Accordingly, the organization qualifies for exemption from Federal income tax under section 501(c)(6) of the Code, but does not qualify for exemption under section 501(c)(3).

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1024,

Exemption Application, in order to be recognized by the Service as exempt under section 501(c)(6) of the Code. The application should be filed with the District Director of Internal Revenue for the district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the regulations.